REPORT OF THE AUDIT OF THE MADISON COUNTY CLERK

For The Year Ended December 31, 2004



CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MADISON COUNTY CLERK

For The Year Ended December 31, 2004

The Auditor of Public Accounts has completed the Madison County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Madison County Clerk had total receipts of \$ 16,553,406, which was a \$1,265,622 increase from the prior year. Except for reimbursed expenses in the amount of \$ 53,472 and fiscal court contributions of \$4,033, the clerk paid 25% of receipts to the Madison County Fiscal Court in the amount of \$378,337. This was an increase of \$11,969 from the prior year.

Debt Obligations:

The County Clerk was committed to two lease agreements. The remaining balance of these agreements totaled \$196,520 as of December 31, 2004.

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive Honorable William E. Gabbard, Madison County Clerk Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2004. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above presents fairly, in all material respects, the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated August 5, 2005 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be considered in assessing the results of our audit.



The Honorable Kent Clark, Madison County Judge/Executive Honorable William E. Gabbard, Madison County Clerk Members of the Madison County Fiscal Court

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed - August 5, 2005

MADISON COUNTY WILLIAM E. GABBARD, COUNTY CLERK STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2004

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State Fees For Services		\$ 23,530
Fiscal Court		4,033
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 1,694,467	
Usage Tax	8,035,553	
Tangible Personal Property Tax	4,731,405	
Lien Release Fees	19,431	
Notary Fees	20,360	
Other-		
Fish and Game	11,830	
Marriage	21,977	
Occupational	2,955	
Other	1,695	
Deed Transfer Tax	388,658	
Delinquent Taxes	 972,449	15,900,780
Fees Collected for Services:		
Recordings-		
Deeds and Power of Attorney	\$ 55,377	
Real Estate Mortgages	182,440	
Chattel Mortgages and Financing Statements	210,761	
Releases	55,690	
Liens	10,726	
All Other Recordings	19,402	
Charges for Other Services-		
Candidate Filing Fees	930	
Postage and Copy Work	 31,063	566,389
Other Revenues:		
Interest Earned	\$ 18,272	
Refunds and Overpayments	19,890	
Miscellaneous	 20,512	 58,674
Total Revenues		\$ 16,553,406

MADISON COUNTY WILLIAM E. GABBARD, COUNTY CLERK STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS For The Year Ended December 31, 2004 (Continued)

Expenditures

Payments to State: Motor Vehicle-					
Licenses and Transfers	\$	1,269,961			
Usage Tax	φ	7,784,450			
Tangible Personal Property Tax		1,675,715			
Licenses, Taxes, and Fees-		1,073,713			
Delinquent Tax		121,747			
Legal Process Tax		67,207			
Miscellaneous		14,029	\$	10,933,109	
Wiscendieous		14,029	φ	10,933,109	
Payments to Fiscal Court:					
Tangible Personal Property Tax	\$	323,384			
Delinquent Tax		79,238			
Deed Transfer Tax		369,225		771,847	
	-			,	
Payments to Other Districts:					
Tangible Personal Property Tax	\$	2,537,751			
Delinquent Tax		526,261		3,064,012	
•					
Payments to Sheriff				9,161	
Payments to County Attorney				151,644	
Operating Expenditures:					
Materials and Supplies-					
	\$	13			
Office Supplies	Ф	13			
Other Charges- Refunds and Overpayments		55,861			
- ·				56 216	
Bank Charges		342		56,216	
Total Expenditures					\$ 14,985,989
•					
Net Revenues					\$ 1,567,417
Payments to State Treasurer:					
75% Operating Fund			\$	1,188,481	
25% County Fund			_	378,337	 1,566,818
Balance Due at Completion of Audit					\$ 599

MADISON COUNTY WILLIAM E. GABBARD, COUNTY CLERK STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2004

	75% Operating		25% County		
		Fund		Fund	Totals
Fund Balance - January 1, 2004	\$	(140,040)	\$		\$ (140,040)
Revenues					
Fees Paid to State - Operating Funds (75%) Fees Paid to State - County Funds (25%)		1,188,481		378,337	1,188,481 378,337
Total Funds Available	\$	1,048,441	\$	378,337	\$ 1,426,778
<u>Expenditures</u>					
Payments to Madison County Fiscal Court	\$		\$	378,337	\$ 378,337
Personnel Services-					
County Clerk's Statutory Maximum		77,325			77,325
County Clerk's Expense Allowance		3,600			3,600
House Bill 810 Training		773			773
Deputies' Salaries		745,827			745,827
Employee Benefits-					
Employer's Share Social Security		57,129			57,129
Employer's Share Retirement		64,340			64,340
Employer's Paid Health Insurance		77,008			77,008
Contracted Services-		10.70.			
Office Repairs and Upkeep		10,586			10,586
Tax Bill Preparation		12,108			12,108
Election Expense		3,272			3,272
Miscellaneous Expense		60			60
Materials and Supplies-		10.257			10.257
Office Supplies		19,257			19,257
Other Charges- Conventions and Travel		9 116			0 116
Dues		8,416 2,700			8,416 2,700
Postage		17,329			17,329
Books and Maps		21,379			21,379
Miscellaneous Expenses		21,929			21,929
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MADISON COUNTY
WILLIAM E. GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

	 75% Operating Fund	25% County Fund	 Totals
Expenditures (Continued)			
Capital Outlay-			
Office Equipment	\$ 16,851	\$	\$ 16,851
Computer Equipment and Software	 135,339	 	 135,339
Total Expenditures	 1,295,228	378,337	 1,673,565
Fund Balance - December 31, 2004	\$ (246,787)	\$ 0	\$ (246,787)

MADISON COUNTY WILLIAM E. GABBARD, COUNTY CLERK NOTES TO THE FINANCIAL STATEMENTS

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2004

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY WILLIAM E. GABBARD, COUNTY CLERK NOTES TO THE FINANCIAL STATEMENTS December 31, 2004 (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the County Clerk's agent in the County Clerk's name.

MADISON COUNTY WILLIAM E. GABBARD, COUNTY CLERK NOTES TO THE FINANCIAL STATEMENTS December 31, 2004 (Continued)

Note 4. Leases

The office of the County Clerk was committed to a lease agreement with Software Management and Avaya. The total remaining balance of the agreement with Software Management was \$191,255, while the remaining balance with Avaya was \$5,265 as of December 31, 2004.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Kent Clark, Madison County Judge/Executive Honorable William E. Gabbard, Madison County Clerk Members of the Madison County Fiscal Court

> Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Madison County Clerk for the year ended December 31, 2004, and have issued our report thereon dated August 5, 2005. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Madison County Clerk's financial statements as of December 31, 2004, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statements Performed In Accordance With Government Auditing Standards (Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed - August 5, 2005